

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

June 4, 2002

ORDER APPROVING ISSUE OF  
SECURITIES AND MORTGAGE  
OF PROPERTY

MAINE PUBLIC SERVICE COMPANY  
Application for Approval of Issuance of  
Second Mortgage and Collateral Trust  
Bonds to Secure New Letter of Credit  
Issued Pursuant to Amendment No. 4 to  
the Letter of Credit and Reimbursement  
Agreement (§1101) (\$14,400,000)

Docket No. 2002-256

MAINE PUBLIC SERVICE COMPANY  
Application for Approval of Issue of Securities  
(§902) (\$15,000,000) and for Approval of Second  
Mortgage (§1101) (\$15,875,000)

Docket No. 96-241

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

---

**I. SUMMARY**

On June 11, 1996, the Commission approved a 25-year securities issuance by Maine Public Service Company (MPS or the Company) through the Maine Public Utility Financing Bank (the "Bond Bank") for a sum not to exceed \$15,000,000. This financing involved a third party Letter of Credit Agreement from The Bank of New York and Fleet National Bank and was backed by MPS's Second Mortgage Bonds in the amount of \$15,875,000. The original Letter of Credit Agreement had a maturity of up to six (6) years total, and at this time, the Company has requested Commission approval to replace the expiring Letter of Credit Agreement and to reissue its Second Mortgage Bonds for 19 years in an amount not to exceed \$14,400,000. There is no "new money" involved in the proposed transaction and the Company is requesting that it be allowed to continue the existing transaction for the remainder of the originally scheduled term. Due to the favorable interest rates on this issuance, this Order approves MPS's request.

**II. BACKGROUND & DECISION**

The only change from the original agreement is that due to MPS's divestiture of generation assets, and the subsequent use of proceeds to redeem certain mortgage bonds, the amount of currently being requested is \$14,400,000 rather than the original \$15,875,000. This transaction involved the issuance of Tax-Exempt Variable Rate Demand Obligations (VRDO's) by the Bond Bank with the proceeds being distributed to MPS. The VRDO's were backed (or "enhanced") by a Letter of Credit from The Bank of

New York and Fleet National Bank and therefore held a credit rating of A ("Single-A"). The Letter of Credit was backed in turn by MPS's Second Mortgage Bonds and this structure allowed MPS to obtain funds at favorable rates due to both their tax-exempt status and the strong Single-A rating. The Company used the proceeds of the original issuance to finance capital improvements and additions to its distribution system.

As noted, the variable interest rate on this issuance has been quite favorable over the years. The Company files semi-annual interest rate reports and has provided an interim report with this filing showing an average variable interest rate of 3.46% over the life of the note from June 1996 through May 21, 2002. While there are extra expenses associated with a complex deal structure such as this one, the "all-in" rate after fees is 5.33% since inception. In addition, thus far in 2002 MPS has not paid a rate higher than 1.70% on these notes.<sup>1</sup> At the time of the original issuance, MPS estimated that an "all-in" fixed rate on a 25-year debt issuance would have been in the area of 8.75% to 9.25% and therefore the savings to date have been significant. Today, MPS estimates that if it were to replace this debt instrument with conventional 20-year fixed rate financing, it would still expect an all-in rate of between 8.50% and 9.00%. Therefore, it appears that interest expense savings will continue to accrue

When this financing closed, the variable interest rate was uncapped, meaning that it could theoretically rise infinitely. In November 2000 however, MPS purchased a 6.00% interest rate cap for this issuance, meaning that with transaction fees, the capped "all-in" interest rate will be in the area of 6.90%. This continues to be superior to the 8.50% to 9.00% long term financing rate MPS expects that it would receive in a conventional financing in the current market. The existing rate cap expires in November 2003 and, as we did in Docket No. 2000-542, *MPS: Application for Approval of Issue of Securities (\$902) (\$9,000,000) and for Approval of Mortgage (\$1101) (\$9,525,000)*, we remind MPS that if it chooses to forego a rate cap on this debt instrument, it will bear the risk in any future proceeding where embedded debt costs are scrutinized.

There are two other important features of this amended agreement that are worth noting here. First, the replacement Letter of Credit has an initial term of two years, with automatic two-year extensions for the remaining life of the VRDO's. If for any reason the transaction is not performing as expected, the Company (or the Letter of Credit Banks) can unilaterally terminate the Letter of Credit, thus triggering a redemption of the bonds at par plus accrued interest, with neither a prepayment penalty nor a call premium. Second, the Company has the option to "term-out" the VRDO, thus fixing a rate for the remaining life of the bonds at any time with no penalty.

Having reviewed the application of the Company, together with supporting data, it is the opinion of the Commission that the proceeds of the issuance of the bonds are required in good faith for the purposes enumerated in 35-A M.R.S.A. § 901. In approving this securities issue, consistent with normal practice and pursuant to

---

<sup>1</sup> Using a transaction fee spread of 1.87% (5.33% - 3.46%) would raise the maximum "all-in" rate during 2002 to 3.57% (1.70% + 1.87%).

§ 902(4), the Commission does not imply approval of the Company's capital needs or capitalization ratio for ratemaking purposes, nor does this order limit or restrict the powers of the Commission in determining or fixing any rate.

Accordingly, we

## ORDER

1. That the Maine Public Service Company is hereby authorized to issue its securities in a sum not to exceed \$14,400,000 in connection with existing Variable Rate Demand Obligations issued on its behalf by the Maine Public Utility Financing Bank (the "Bond Bank") for a term not to exceed 19 years.
2. That the Company is authorized pursuant to 35-A M.R.S.A. §1101 to secure its Letter of Credit Agreement to The Bank of New York and Fleet Bank by executing and delivering to The Bank of New York, as Trustee, a Sixth Supplemental Indenture relating to the issue of up to \$14,400,000 of its Second Mortgage and Collateral Trust Bonds in substantially the form filed with this Commission.
3. That the Company report the effective variable interest rate on this issuance every six months in January and July (for the six month periods ended December 31 and June 30). This requirement is waived during periods when the interest rate has been capped or permanently fixed.
4. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 4<sup>th</sup> day of June, 2002.

BY ORDER OF THE COMMISSION

Dennis L. Keschl  
Administrative Director

COMMISSIONERS VOTING FOR: Welch  
Nugent  
Diamond

## NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.